BRASIL TELECOM SA
Form 6-K
November 09, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

THROUGH NOVEMBER 9, 2004

(Commission File No. 1-15256)

BRASIL TELECOM S.A.
(Exact name of Registrant as specified in its Charter)

BRAZIL TELECOM COMPANY
(Translation of Registrant's name into English)

SIA Sul, Área de Serviços Públicos, Lote D, Bloco B
Brasília, D.F., 71.215-000
Federative Republic of Brazil
(Address of Regristrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)__.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)__.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No ___X___

If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b):

Brasil Telecom S.A.

Report of independent accountants on
special review
Quarter ended September 30, 2004
(A translation of the original report in Portuguese as filed with the Brazilian Securities Commission (CVM) containing quarterly financial information prepared in accordance with accounting practices adopted in Brazil and the regulations issued by the CVM)

FEDERAL PUBLIC SERVICE
SECURITIES AND EXCHANGE COMMISSION (CVM) **CORPORATE LAW**
QUARTERLY INFORMATION
COMMERCIAL COMPANY INDUSTRIAL AND OTHERS **Period-ended: September 30, 2004**

REGISTRATION AT THE CVM DOES NOT REQUIRE ANY EVALUATION OF THE COMPANY, BEING ITS DIRECTOR RESPONSIBLE FOR THE VERACITY OF THIS INFORMATION.

01.01 - IDENTIFICATION

1 - CVM CODE	2 - COMPANY NAME	3 - GENERAL TAXPAYERS REGISTER
01131-2	BRASIL TELECOM S.A.	76.535.764/0001-43
4 - NIRE 5.330.000.622-9		

01.02 - ADDRESS OF COMPANY HEADQUARTERS

1 - COMPLETE ADDRESS SIA/SUL - ASP - LOTE D- BL B - 1º ANDAR			2 - DISTRICT SIA	
3 - ZIP CODE 71215-000	4 - MUNICIPALITY BRASILIA			5 - STATE DF
6 - AREA CODE 61	7 - TELEPHONE NUMBER 415-1901	8 - TELEPHONE NUMBER 415-1256	9 - TELEPHONE NUMBER 415-1119	10 - TELEX
11 - AREA CODE 61	12 - FAX 415-1237	13 - FAX 415-1315	14 - FAX -	
15 - E-MAIL ri@brasitelecom.com.br				

01.03 - INVESTOR RELATION DIRECTOR (Address for correspondence)

1 - NAME CARLA CICO				
2 - COMPLETE ADDRESS SIA/SUL - ASP - LOTE D- BL B - 2º ANDAR			3 - DISTRICT SIA	
4 - ZIP CODE 71215-000	5 - MUNICIPALITY BRASILIA			6 - STATE DF
7 - AREA CODE 61	8 - TELEPHONE NUMBER 415-1901	9 - TELEPHONE NUMBER -	10 - TELEPHONE NUMBER -	11 - TELEX
12 - AREA CODE 61	13 - FAX 415-1237	14 - FAX -	15 - FAX -	
15 - E-MAIL ccico@brasiltelecom.com.br				

01.04 - REFERENCE / INDEPENDENT ACCOUNTANT

CURRENT FISCAL YEAR		CURRENT QUARTER			PRIOR QUARTER		
1 - BEGINNING	2 - ENDING	3 - QUARTER	4 - BEGINNING	5 - ENDING	6 - QUARTER	7 - BEGINING	8 - ENDING

01/01/2004	12/31/2004	3	07/01/2004	09/30/2004	2	04/01/2004	06/30/2004

9 - INDEPENDENT ACCOUNTANT KPMG AUDITORES INDEPENDENTES	10 - CVM CODE 00418-9
11 - NAME TECHINICAL RESPONSIBLE MANUEL FERNANDES RODRIGUES DE SOUSA	12 - CPF - TAXPAYER REGISTER 783.840.017-15

01.05 - COMPOSITION OF ISSUED CAPITAL

QUANTITY OF SHARES (IN THOUSANDS)	1 - CURRENT QUARTER 09/30/2004	2 - PRIOR QUARTER 06/30/2004	3 - SAME QUARTER OF PRIOR YEAR 09/30/2003
ISSUED CAPITAL			
1 - COMMON	249,597,050	249,597,050	249,597,050
2 - PREFERRED	300,118,295	300,118,295	295,569,090
3 - TOTAL	549,715,345	549,715,345	545,166,140
TREASURY SHARES			
4 - COMMON	0	0	0
5 - PREFERRED	5,027,282	4,848,482	6,331,111
6 - TOTAL	5,027,282	4,848,482	6,331,111

01.06 - COMPANY S CHARACTERISTICS

1 - TYPE OF COMPANY COMMERCIAL, INDUSTRIAL COMPANY AND OTHERS
2 - SITUATION OPERATING
3 - TYPE OF CONTROLLING INTEREST NATIONAL PRIVATE
4 - ACTIVITY CODE 113 - TELECOMMUNICATION
5 - MAIN ACTIVITY PROVIDING SWITCHED FIXED TELEPHONE SERVICE (STFC)
6 - TYPE OF CONSOLIDATED TOTAL
7 - TYPE OF INDEPENDENT ACCOUNTANTS' REVIEW REPORT UNQUALIFIED

01.07 - SUBSIDIARIES EXCLUDED FROM THE CONSOLIDATED STATEMENT

1 - ITEM	2 - GENERAL TAXPAYERS REGISTER	3 - NAME

01.08 - DIVIDENDS APPROVED AND/OR PAID DURING AND AFTER THE QUARTER

1 - ITEM	2 - EVENT	3 - APPROVAL	4 - DIVIDEND	5 - BEGINNING PAYMENT	6 - TYPE OF SHARE	7 - VALUE OF THE DIVIDEND PER SHARE

01.09 - ISSUED CAPITAL AND CHANGES IN CURRENT YEAR

1 - ITEM	2 - DATE OF CHANGE	3 - CAPITAL STOCK (In R$ thousands)	4 - VALUE OF CHANGE (In R$ thousands)	5 - ORIGIN OF ALTERATION	6 - QUANTITY OF ISSUED SHARES (In R$ thousands)	7 - SHARE PRICE ON ISSUANCE DATE (In R$)
01	03/18/2004	3,401,245	28,148	CAPITAL RESERVE	4,549,205	0.0141499999

01.10 - INVESTOR RELATION DIRECTOR

1 - DATE	2 - SIGNATURE
10/29/2004	

02.01 - BALANCE SHEET - ASSETS (IN THOUSANDS OF REAIS)

1 - CODE	2 - ACCOUNT DESCRIPTION	3 - 09/30/2004	4 - 06/30/2004
1	TOTAL ASSETS	16,057,400	15,503,581
1.01	CURRENT ASSETS	4,922,159	4,014,455
1.01.01	CASH AND CASH EQUIVALENTS	1,887,831	1,027,533
1.01.02	CREDITS	2,057,615	1,924,714
1.01.02.01	ACCOUNTS RECEIVABLE FROM SERVICES	2,057,615	1,924,714
1.01.03	INVENTORIES	2,972	6,605
1.01.04	OTHER	973,741	1,055,603
1.01.04.01	LOANS AND FINANCING	149,208	161,769
1.01.04.02	DEFERRED AND RECOVERABLE TAXES	541,068	618,935
1.01.04.03	JUDICIAL DEPOSITS	163,219	157,863
1.01.04.04	OTHER ASSETS	120,246	117,036
1.02	NONCURRENT ASSETS	1,249,494	1,166,483
1.02.01	OTHER CREDITS	0	0
1.02.02	INTERCOMPANY RECEIVABLES	62,700	12,125
1.02.02.01	FROM ASSOCIATED COMPANIES	5,051	4,633
1.02.02.02	FROM SUBSIDIARIES	57,649	7,492
1.02.02.03	FROM OTHER RELATED PARTIES	0	0
1.02.03	OTHER	1,186,794	1,154,358
1.02.03.01	LOANS AND FINANCING	8,116	7,929
1.02.03.02	DEFERRED AND RECOVERABLE TAXES	567,906	562,822
1.02.03.03	JUDICIAL DEPOSITS	456,433	427,625
1.02.03.04	INVENTORIES	0	2,770
1.02.03.05	OTHER ASSETS	154,339	153,212
1.03	FIXED ASSETS	9,885,747	10,322,643
1.03.01	INVESTMENTS	1,809,903	1,831,018
1.03.01.01	ASSOCIATED COMPANIES	204	204
1.03.01.02	SUBSIDIARIES	1,641,631	1,653,645
1.03.01.03	OTHER INVESTMENTS	168,068	177,169
1.03.02	PROPERTY, PLANT AND EQUIPMENT	7,540,578	7,929,295
1.03.03	DEFERRED CHARGES	535,266	562,330

02.02 - BALANCE SHEET - LIABILITIES (IN THOUSANDS OF REAIS - R$)

1 - CODE	2 - ACCOUNT DESCRIPTION	3 - 09/30/2004	4 - 06/30/2004
2	TOTAL LIABILITIES	16,057,400	15,503,581
2.01	CURRENT LIABILITIES	3,826,699	3,744,850
2.01.01	LOANS AND FINANCING	586,354	597,209
2.01.02	DEBENTURES	856,593	878,521
2.01.03	SUPPLIERS	1,037,435	989,811
2.01.04	TAXES, DUTIES AND CONTRIBUTIONS	536,037	491,932
2.01.04.01	INDIRECT TAXES	505,804	488,205
2.01.04.02	TAXES ON INCOME	30,233	3,727
2.01.05	DIVIDENDS PAYABLE	238,007	238,549
2.01.06	PROVISIONS	304,614	313,715
2.01.06.01	PROVISION FOR CONTINGENCIES	276,592	285,693
2.01.06.02	PROVISION FOR PENSION PLAN	28,022	28,022
2.01.07	RELATED PARTY DEBTS	0	0
2.01.08	OTHER	267,659	235,113
2.01.08.01	PAYROLL AND SOCIAL CHARGES	79,417	69,506
2.01.08.02	CONSIGNMENTS IN FAVOR OF THIRD PARTIES	82,622	65,705
2.01.08.03	EMPLOYEE PROFIT SHARING	37,200	27,156
2.01.08.04	OTHER LIABILITIES	68,420	72,746
2.02	LONG-TERM LIABILITIES	5,524,920	5,159,856
2.02.01	LOANS AND FINANCING	2,930,389	2,738,344
2.02.02	DEBENTURES	1,020,000	910,000
2.02.03	PROVISIONS	821,142	791,466
2.02.03.01	PROVISION FOR CONTINGENCIES	345,456	309,568
2.02.03.02	PROVISION FOR PENSION PLAN	460,638	464,865
2.02.03.03	PROVISION FOR LOSS WITH SUBSIDIARIES	15,048	17,033
2.02.04	RELATED PARTY DEBTS	0	0
2.02.05	OTHER	735,389	720,046
2.02.05.01	PAYROLL AND SOCIAL CHARGES	4,837	4,837
2.02.05.02	SUPPLIERS	8,428	396
2.02.05.03	INDIRECT TAXES	673,540	653,840
2.02.05.04	TAXES ON INCOME	33,182	27,845
2.02.05.05	OTHER LIABILITIES	25,428	25,154
2.02.05.06	FUND FOR CAPITALIZATION	7,974	7,974
2.03	DEFERRED INCOME	7,623	8,097
2.05	SHAREHOLDERS EQUITY	6,698,158	6,590,778
2.05.01	CAPITAL	3,401,245	3,401,245
2.05.02	CAPITAL RESERVES	1,495,082	1,496,805
2.05.03	REVALUATION RESERVES	0	0
2.05.03.01	COMPANY ASSETS	0	0
2.05.03.02	SUBSIDIARIES/ASSOCIATED COMPANIES	0	0
2.05.04	PROFIT RESERVES	273,244	273,244
2.05.04.01	LEGAL	273,244	273,244
2.05.04.02	STATUTORY	0	0
2.05.04.03	CONTINGENCIES	0	0
2.05.04.04	REALIZABLE PROFITS RESERVES	0	0
2.05.04.05	PROFIT RETENTION	0	0
2.05.04.06	SPECIAL RESERVE FOR UNDISTRIBUTED DIVIDENDS	0	0
2.05.04.07	OTHER PROFIT RESERVES	0	0
2.05.05	RETAINED EARNINGS	1,528,587	1,419,484

03.01 - STATEMENT OF INCOME (IN THOUSANDS OF REAIS - R$)

1 - CODE	2 - DESCRIPTION	3 - 07/01/2004 TO 09/30/2004	4 - 01/01/2004 TO 09/30/2004	5 - 07/01/2003 TO 09/30/2003	6 - 01/01/2003 TO 09/30/2003
3.01	GROSS REVENUE FROM SALES AND SERVICES	3,267,244	9,166,111	2,870,608	8,181,067
3.02	DEDUCTIONS FROM GROSS REVENUE	(931,974)	(2,613,644)	(816,517)	(2,320,050)
3.03	NET REVENUE FROM SALES AND SERVICES	2,335,270	6,552,467	2,054,091	5,861,017
3.04	COST OF SALES	(1,428,344)	(4,095,116)	(1,196,266)	(3,533,560)
3.05	GROSS PROFIT	906,926	2,457,351	857,825	2,327,457
3.06	OPERATING EXPENSES	(666,476)	(2,123,083)	(640,744)	(2,067,738)
3.06.01	SELLING EXPENSES	(271,858)	(787,521)	(231,095)	(656,718)
3.06.02	GENERAL AND ADMINISTRATIVE EXPENSES	(218,249)	(647,240)	(193,566)	(547,621)
3.06.03	FINANCIAL	(135,050)	(664,272)	(214,821)	(893,524)
3.06.03.01	FINANCIAL INCOME	53,433	312,928	46,835	217,122
3.06.03.02	FINANCIAL EXPENSES	(188,483)	(977,200)	(261,656)	(1,110,646)
3.06.04	OTHER OPERATING INCOME	81,651	314,392	47,892	176,265
3.06.05	OTHER OPERATING EXPENSES	(112,941)	(321,528)	(39,722)	(132,744)
3.06.06	EQUITY GAN (LOSS)	(10,029)	(16,914)	(9,432)	(13,396)
3.07	OPERATING INCOME (LOSS)	240,450	334,268	217,081	259,719
3.08	NON-OPERATING INCOME (EXPENSES)	(34,987)	(174,522)	(31,500)	(109,876)
3.08.01	REVENUES	10,280	26,348	10,922	37,220
3.08.02	EXPENSES	(45,267)	(200,870)	(42,422)	(147,096)
3.09	INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST	205,463	159,746	185,581	149,843
3.10	PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION	(84,162)	(97,643)	(73,316)	(75,593)
3.11	DEFERRED INCOME TAX	0	0	0	0
3.12	STATUTORY INTEREST/CONTRIBUTIONS	(12,198)	(36,635)	(13,804)	(34,547)
3.12.01	INTEREST	(12,198)	(36,635)	(13,804)	(34,547)
3.12.02	CONTRIBUTIONS	0	0	0	0
3.13	REVERSAL OF INTEREST ON EQUITY	0	238,100	0	246,200
3.15	INCOME (LOSS) FOR THE PERIOD	109,103	263,568	98,461	285,903
	NUMBER OF OUTSTANDING SHARES (THOUSAND)	544,688,063	544,688,063	538,835,029	538,835,029
	EARNINGS PER SHARE	0,00020	0,00048	0,00018	0,00053
	LOSS PER SHARE				

04.01 - NOTES TO THE QUARTERLY REPORT

NOTES TO THE FINANCIAL STATEMENTS

Quarter ended September 30, 2004

(In thousands of Brazilian reais)

1. OPERATIONS

BRASIL TELECOM S.A. (the Company) is the responsible concessionaire of the Switched Fixed Telephone Service (STFC) and operates in Region II of the General Concessions Plan, covering the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul and the Federal District. The Company has rendered STFC (local and long distance calls) since July 1998 in an area of 2,859,375 square kilometers, which corresponds to 34% of the Brazilian territory. The Company s business is regulated by the National Agency of Telecommunications ANATEL.

With recognition of the prior fulfillment of the obligations for universalization stated in the General Plan of Universalization Goals (PGMU), forecasted for December 31, 2003, in accordance with the acts published in the Diário Oficial da União (Official Daily Government Newspaper) on January 19, 2004, the restriction of providing other telecommunications services ceased to exist, permitting the Company, its parent companies, its subsidiaries and associated companies to obtain new authorizations. On the same date ANATEL, issued authorizations for the Company to exploit STFC in the following service modalities: (i) local and domestic long distance calls in Regions I and III and Sectors 20, 22 and 25 of Region II of the General Concession Plan (PGO); and (ii) international long distance calls in Regions I, II of III of PGO. As a result of these authorizations, the Company began to exploit the domestic and international long distance services in the new regions, starting on January 22, 2004. In the case of the local service to be provided in regions I and III, as regulated, the Company has a period of 12 months to begin its operations as from the date of the aforementioned authorization.

Information related with the quality and universal service targets of the STFC are available to interested parties on ANATEL s homepage (*www.anatel.gov.br)*.

The Company is a subsidiary of Brasil Telecom Participações S.A. (BrTP), incorporated on May 22, 1998 as a result of the privatization of the Telebrás group (State owned holding company of the telecommunication segment).

The Company is registered at the Brazilian Securities Commission CVM and at the Securities and Exchange Commission SEC in the USA. Its shares are traded on the São Paulo Stock Exchange BOVESPA and its American Depositary Receipts ADRs on the New York Stock Exchange (NYSE). The Company is also part of level 1 of Corporate Governance at BOVESPA.

Subsidiaries

a) 14 Brasil Telecom Celular S.A. (BrT Celular): A wholly owned subsidiary incorporated in December 2002, to provide the Personal Mobile Service (SMP), with authorization to attend the same coverage area where the Company operates with STFC. On the closing date for the quarter BrT Celular was in the process of being structured pre-operating stage. The beginning of its activities is forecasted for the last quarter of 2004.

b) BrT Serviços de Internet S.A. (BrTI): A wholly-owned subsidiary incorporated in October 2001, providing internet services and correlated activities, which became operational at the beginning of 2002.

During the second quarter of 2003, BrTI made investments in capital interests as a partner or quotaholder, obtaining control of the following companies:

(i) BrT Cabos Submarinos Group (ex-GlobeNet)

This group of companies operates through a system of submarine fiber optics cables, with points of connection in the United States, Bermuda Islands, Venezuela and Brazil, allowing the traffic of data through packages of integrated services, offered to local and international corporate customers. It is comprised by the following companies:

- Brasil Telecom Cabos Submarinos do Brasil (Holding) Ltda. ("BrT CSH"): Company acquired on June 11, 2003, as part of a program to purchase the GlobeNet Group, an acquisition previously disclosed on November 19, 2002, through a relevant fact.

- Brasil Telecom Cabos Submarinos do Brasil Ltda. ("BrT CS Ltda."): Company acquired on June 11, 2003, in which BrTI exercises direct control and total control jointly with BrT CSH, which was a further step of the program to purchase the GlobeNet Group.

- Brasil Telecom Subsea Cable Systems (Bermudas) Ltd. ("BrT SCS Bermudas"): Company incorporated under the law of Bermudas, for which the transfer of funds by BrTI for paying in of capital occurred on May 30, 2003. It was also an additional step of the program to purchase the Globenet Group. BrT SCS Bermudas holds the controlling interest of Brasil Telecom of America Inc. and Brasil Telecom de Venezuela S.A.

(ii) iBest Group

Since February 2002, BrTI has held a minority interest in iBest Holding Corporation (IHC), a company incorporated in the Cayman Islands. Due to a succession of various corporate acts occurring during June 2003 in IHC and its subsidiaries, BrTI began to exercise control over the iBest Group, which is formed by the main companies: (i) iBest Holding Corporation; (ii) iBest S.A.; (iii) Febraio S.A.; and (iv) Freelance S.A. In May 2004 through a corporate reorganization process the Freelance fully incorporated Febraio SA., iBest S.A. and its subsidiary Mail BR Comunicação Ltda. The Freelance S.A. becomes the owner of iBest s trademark, being the main company of this Group.

iBest was incorporated in January 1999, with the objective of organizing the iBest Prize , trading advertising space for the event. In December 2001 it extended its activities, when it started to offer and to concentrate its operations on providing dialed access to the Internet.

c) MTH Ventures do Brasil Ltda. (MTH): On May 13, 2004, the Company acquired 80.1% of the voting capital of MTH, in addition to the 19.9% held previously. MTH, in turn, held 100% of the capital of MetroRED Telecomunicações Ltda. (MetroRED).

MetroRED is a service provider for a private telecommunications network through optical fiber digital networks and has 343 kilometers of local network in São Paulo, Rio de Janeiro and Belo Horizonte and 1,485 kilometers of long distance network connecting these major metropolitan commercial centers. It also has an Internet Solutions center in São Paulo, which offers co-location, hosting and other value added services.

d) VANT Telecomunicações S.A. (VANT): On May 13, 2004, the Company acquired the remaining 80,1% of the capital of VANT, which is a service provider for corporate network services, founded in October 1999. Initially focused on a TCP/IP network, VANT started in Brazil with a network 100% based on this technology. VANT operates throughout Brazil, and is present in the main Brazilian state capitals, offering a portfolio of voice and data products.

2. PRESENTATION OF FINANCIAL STATEMENTS

Preparation Criteria

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, in accordance with Brazilian corporation law, rules of the CVM and rules applicable to Switched Fixed Telecommunications Services STFC concessionaires.

As the Company is registered with the SEC, it is subject to its standards, and should annually prepare financial statements and other information by using criteria that comply with that entity s requirements. For complying with these requirements and aiming at meeting the market s information needs, the Company adopts, as a principle, the practice of publishing information in both markets in their respective languages.

The notes to the financial statements are presented in thousands of reais, unless demonstrated otherwise in each note. According to each situation, the notes to the financial statement present information related with the Company and the consolidated financial statements, identified as PARENT COMPANY and CONSOLIDATED , respectively. When the information is common to both situations, it is indicated as PARENT COMPANY AND CONSOLIDATED .

The accounting estimates were based on objective and subjective factors, based on management s judgment to determine the appropriate amount to be recorded in the financial statements. Significant elements subject to these estimates and assumptions include the residual amount of the fixed assets, provision for doubtful accounts, inventories and deferred income tax assets, provision for contingencies, valuation of derivative instruments, and assets and liabilities related to benefits for employees. The settlement of transactions involving these estimates may result in significant different amounts due to the inherent imprecision of the process of determining these amounts. Management reviews its estimates and assumptions at least quarterly.

Consolidated Financial Statements

The consolidation was made in accordance with CVM Instruction 247/96 and includes the companies listed in Note 1.

Some of the main consolidation procedures are:

- Elimination of intercompany balances, as well as revenue and expenses of transactions among them;
- Elimination of the investor's shareholdings, reserves and accumulated results in the investees; and
- Segregation of the portions of shareholders' equity and income belonging to minority shareholders, indicated in specific items.

The reconciliation between the Parent Company net income and the consolidated figures is as follows:

	NET INCOME		SHAREHOLDERS EQUITY	
	09/30/04	**06/30/04**	**09/30/04**	**06/30/04**
Parent company	**263,568**	**154,465**	**6,698,158**	**6,590,778**
Entries recorded directly in the Subsidiary Shareholders Equity				
Donations and Subsidies for Investments	(6,121)	(942)	-	-
CONSOLIDATED	**257,447**	**153,523**	**6,698,158**	**6,590,778**

In addition, the Company presents, in Note 17, the statement of cash flows, prepared under the indirect method, in accordance with Accounting Rules and Procedures NPC 20 of the Brazilian Institute of Independent Auditors IBRACON.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The criteria mentioned in this note refer to the practices adopted by the Company and its subsidiaries that are included in the consolidated balance sheet.

a. Cash and cash equivalents: Cash equivalents are short-term, high-liquid investments, with immediate maturity. They are recorded at cost plus income earned to the end of the quarter, not exceeding market value.

b. Trade accounts receivable: Receivables from users of telecommunications services are recorded at the amount of the tariff in effect on the date the service is rendered. Unbilled services provided to customers at the balance sheet date are also included in trade accounts receivable. The criterion adopted for making the provision for doubtful accounts takes into account the calculation of the actual percentage of losses incurred on each range of accounts receivable. The historic percentages are applied to the current ranges of accounts receivable, also including accounts coming due and the portion yet to be billed, thus composing the amount that could become a future loss, which is recorded as a provision.

c. Inventories: Stated at average acquisition cost, not exceeding replacement cost. Inventories are segregated into inventories for plant expansion and those for maintenance. The inventories to be used in expansion are classified in property, plant and equipment (construction in progress), and inventories to be used in maintenance are classified as current and non-current assets. Obsolete items are provided for through an allowance for losses.

d. Investments: Investments in subsidiaries are valued using the equity method. Goodwill is calculated based on the expectation of future results and its amortization is based on the expected realization/timing over a forecasted period of not more than ten years. Other investments are recorded at cost less allowance for losses, when applicable. The investments resulting from income tax incentives are recognized at the date of investment, and result in shares of companies with tax incentives or investment fund quotas. In the period between the investment date and receipt of shares or quotas, they remain recognized in non-current assets. The Company adopts the criterion of using the maximum percentage of tax allocation. These investments are periodically valued at cost or market prices, when the latter is lower, and allowances for losses are recorded if required.

e. Property, plant and equipment: Stated at cost of acquisition and/or construction, less accumulated depreciation. Financial charges for financing assets and construction in progress are capitalized.

The costs incurred, when they represent improvements (increase in installed capacity or useful life) are capitalized. Maintenance and repair are charged to the profit and losses accounts, on an accrual basis.

Depreciation is calculated under the straight-line method. Depreciation rates used are based on expected useful lives of the assets and in accordance with the standards of the Public Telecommunications Service. The main rates used are set forth in Note 24.

f. Deferred charges: Segregated between deferred charges on amortization and formation. Their breakdown is shown in Note 25. Amortization is calculated under the straight-line method in accordance with the legislation in force. When benefits are not expected from an asset, it is written off against non-operating income.

g. <u>Income and Social Contribution Taxes</u>: Income and social contribution taxes are accounted for on an accrual basis. These taxes levied on temporary differences, tax losses, and the negative social contribution base are recorded under assets or liabilities, as applicable, according to the assumption of realization or future demand, within the parameters established in the CVM Instruction nr 371/02.

h. <u>Loans and Financing</u>: Updated to the balance sheet date for monetary or exchange variations and interest incurred. Equal restatement is applied to the guarantee contracts to hedge the debt.

i. <u>Provision for Contingencies</u>: Recognized based on management s risk assessment and measured based on economic grounds and legal counselors opinions on the lawsuits and other contingency factors known as of the balance sheet date. The basis and nature of the provisions are described in Note 7.

j. <u>Revenue recognition</u>: Revenues from services rendered are accounted for on an accrual basis. Local and long distance calls are charged based on time measurement according to the legislation in force. Revenues from sales of payphone cards are recorded upon sale.

k. <u>Recognition of Expenses</u>: Expenses are recognized on an accrual basis, considering their relation with revenue realization. Expenses related to other periods are deferred.

l. <u>Financial Income (Expense), Net</u>: Financial income comprises interest earned on overdue accounts receivable from services, gains on financial investments, exchange variation and hedges. Financial expenses comprise interest incurred and other charges on loans, financing and other financial transactions.

Interest on Shareholders Equity is included in the financial expenses balance for financial statement presentation purposes, the amounts are reversed to profit and loss accounts and reclassified as a deduction of retained earnings, in the shareholders equity.

m. <u>Research and Development</u>: Costs for research and development are recorded as expenses when incurred, except for expenses with projects linked to the generation of future revenue, which are recorded under deferred assets and amortized over a five-year period from the beginning of the operations.

n. <u>Benefits to Employees</u>: Private pension plans and other retirement benefits sponsored by the Company and its subsidiaries for their employees are managed by SISTEL and BrTPREV. Contributions are determined on an actuarial basis, when applicable, and accounted for on an accrual basis. As of December 31, 2001, to comply with CVM Deliberation 371/00, the Company recorded its actuarial deficit on the balance sheet date against shareholders equity, net of its tax effects. As from 2002, as new actuarial revaluations show the necessity for adjustments to the provision, they are recognized in the profit and loss accounts, in accordance with the CVM deliberation above. Complementary information on private pension plans is described in Note 6.

o. <u>Profit Sharing</u>: The provisions for employee and directors profit sharing are recognized on an accrual basis. The calculation of the amount, which is paid in the subsequent year after the provision is recognised, is based on the target program established with the labor union, in accordance with Law 10,101/00 and the Company s bylaws.

p. <u>Earnings per thousand shares</u>: Calculated based on the number of shares outstanding at the balance sheet date, which comprises the total number of shares issued net of treasury stock.

4. RELATED-PARTY TRANSACTIONS

Related party transactions refer to operations with Brasil Telecom Participações S.A., the Company s parent company, and with the subsidiaries mentioned in Note 1.

Operations between related parties and the Company are carried out under normal prices and market conditions. The main transactions are:

BrTP

<u>Dividends/Interest on Shareholders Equity</u>: From the amount provided for until the end of this quarter, R$157,283 (R$162,425 in 2003) have been credited to the Parent Company. The balance of this liability, net of withheld income tax, is R$133,690 (R$133,690 on June 30, 2004).

<u>Loans with the Parent Company</u>: Liabilities arose from the spin-off of Telebrás and are indexed to exchange variation, plus interest of 1.75% per year, amounting to R$79,906 (R$91,835 as of June 30, 2004). The financial expense recognized in the statement of income in this quarter was of R$565 (R$18,298 of financial gain in 2003, due to the devaluation of the US dollar in relation to the Brazilian real).

Debentures: On January 27, 2001, the Company issued 1,300 private debentures non-convertible or exchangeable for any type of share, at the unit price of R$1,000, totaling R$1,300,000, for the purpose of financing part of its investment program. All these debentures were acquired by Brasil Telecom Participações S.A. The nominal value of these debentures will be paid in three installments equivalent to 30% and 40% with maturities on July 27, 2004, 2005, and 2006, respectively. The debenture remuneration is equivalent to 100% of CDI, received semiannually. The balance of this liability as of September 30, 2004 is R$934,778 (R$1,383,439 on June 30, 2004), and the charges recognized in the income statement for the quarter represents R$138,728 (R$227,413 in 2003),

Revenues, Expenses and Accounts Receivable and Payable: Arising from transactions related to the use of installations and logistic support. The balance receivable is R$333 (R$2,617 to pay as of June 30, 2004) and the income statement for the quarter comprises Operating Income of R$2,160 (R$1,637 in 2003).

BrTI

Advance for Future Capital Increase AFAC: the amount recorded as AFAC is R$48,304.

Revenues, Expenses and Accounts Receivable and Payable: Arising from transactions related to the use of installations, logistic support and telecommunications services. The balance receivable is R$1,315 (R$5,257 receivable as of June 30, 2004). The income statement for the quarter comprises Operating Income of R$40,151 (R$26,577 in 2003) and operational expenses of R$103,510 (R$103,134 in 2003).

MetroRED

Revenues, Expenses and Accounts payable: Arising from transactions related to telecommunication services. The balance payable is R$5,434 (R$5,668 in 06,31,2004). The income statement for the quarter comprises Operating expense of R$25,355.

VANT

Advance for Future Capital Increase AFAC: The amount recorded as AFAC is R$9,245 (R$7,492 as of June 30, 2004).

Calais Participações S.A.

Advance for Future Capital Increase AFAC: The amount recorded as AFAC is R$5,051 (R$4,633 as of June 30, 2004).

BrT CS Ltda.

Revenues: Financial income of R$79 relating to loan already settled.

BrT SCS Bermudas

Loans: Denominated in US dollars, accruing interest of 3% p.a., with short-term maturity. This receivable amounts to R$148,091 (R$159,773 on June 30, 2004) and the respective financial expense to R$720. Accounts receivable: R$1,066 relating to tax over financial operations - IOF, levied on the abovementioned loans.

Freelance S.A.

Accounts Payable: Arising from transactions related to the use of installations and logistic support. The balance payable amounts to R$7 (R$2 as of June 30, 2004).

5. MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS) AND RISK ANALYSIS

The Company and its subsidiary assessed the book value of its assets and liabilities as compared to market or realizable values (fair value), based on information available and valuation methodologies applicable to each case. The interpretation of market data regarding the choice of methodologies requires considerable judgment and determination of estimates to achieve an amount considered adequate for each case. Accordingly, the estimates presented may not necessarily indicate the amounts, which can be obtained in the current market. The use of different assumptions for calculation of market value or fair value may have material effect on the obtained amounts. The selection of assets and liabilities presented in this note has been was made based on their materiality. Instruments whose values approximates their fair values, and risk assessment is not significant are not mentioned.

In accordance with their natures, the financial instruments may involve known or unknown risks the potential of such risks is important for the best judgment. Thus, there may be risks with or without guarantees, depending on circumstantial or legal aspects. Among the principal market risk factors which can affect the Company s and subsidiaries business are the following:

a. Credit Risk

The majority of the services provided by Brasil Telecom S.A. are related to the Concession Agreement, and a significant portion of these services is subject to the determination of tariffs by the regulatory agency. The credit policy, in case of telecommunications public services, is subject to legal standards established by the concession authority. The risk exists since the Company may incur losses arising from the difficulty in receiving amounts billed to its customers. In the quarter, the Company s default was 2.97% of the gross revenue (2.46% for the same period last year). By means of internal controls, the level of accounts receivable is constantly monitored, thus limiting the risk of past due accounts by cutting the access to the service (out phone traffic) if the bill is overdue for over 30 days. Exceptions are made for telephone services, which should be maintained for national security or defense.

b. Exchange Rate Risk

Assets

The Company has asset loans in foreign currency subject to exchange rate fluctuations. The assets exposed to exchange rate risk are as follows:

	PARENT COMPANY	
	BOOK AND MARKET VALUE	
	09/30/04	06/30/04
Assets		
Loans with Parent Company	148,091	159,773
Total	**148,091**	**159,773**
Current	148,091	159,773

Loans denominated in US dollar granted to BrT SCS Bermuda on April 2, 2004, bearing interest rate of 3% p.a.

Liabilities

The Company has loans and financing contracted in foreign currency. The risk related to these liabilities arises from possible exchange rate fluctuations, which may increase these liabilities balances. Loans subject to this risk represent approximately 26% of the total liabilities (29% on June 30, 2004). To minimize this type of risk, the subsidiary enters into swap agreements with financial institutions to hedge foreign exchange exposures. 45% of the debt portion in foreign currency is covered by hedge agreements (25% on June 30, 2004). Unrealized positive or negative effects of these operations are recorded in the profit and loss as gain or loss. Consolidated net gain amounted to R$44,105 until the third quarter (losses of R$76,695 for the same period of last year).

Net exposure as per book and market values, at the exchange rate prevailing on the balance sheet date, is as follows:

	PARENT COMPANY			
	09/30/04		06/30/04	
	Book Value	Market Value	Book Value	Market Value
LIABILITIES				
Loans and financing	1,337,513	1,4098,539	1,500,242	1,466,319
Hedge Contracts	51,525	72,764	(6,491)	6,005
TOTAL	**1,389,038**	**1,481,303**	**1,493,751**	**1,472,324**
Current	57,339	61,147	77,402	76,292
Non-current	1,331,699	1,420,156	1,416,349	1,396,032

	CONSOLIDATED			
	06/30/04		03/31/04	
	Book Value	Market Value	Book Value	Market Value
LIABILITIES				
Loans and financing	1,365,972	1,436,998	1,531,162	1,497,239
Hedge Contracts	51,525	72,764	(6,491)	6,005
TOTAL	**1,417,497**	**1,509,762**	**1,524,671**	**1,503,244**

Current	57,339	61,072	77,402	76,315
Non-current	1,360,158	1,448,690	1,447,269	1,426,429

The method used for calculation of market value (fair value) of loans and financing in foreign currency and hedge instruments was the discounted cash flow at the market rates prevailing at the balance sheet date.

c. Interest Rate Risk

Assets

The Company has loans with a telephone directory company, with interest indexed to the IGP-DI (a national index price) and loans resulting from the sale of fixed assets to other telephone service companies, bearing interest rate indexed to the Column 27 of the FGV (a national index price). The consolidated financial statements also present a loan agreement with Freelance S.A., which is indexed to IGP-M.

At the balance sheet date, these assets are represented as follows:

	PARENT COMPANY		CONSOLIDATED	
	Book and Market Value		Book and Market Value	
	09/30/04	06/30/04	09/30/04	06/30/04
ASSETS				
Loans tied to the IGP-DI	7,542	7,309	8,103	7,309
Debentures linked to CDI	-	859	-	-
Loans tied to the IPA-OG Column 27 (FGV)	1,691	1,757	1,691	1,757
Loans tied to the IGP-M	-	-	1,421	1,374
TOTAL	**9,233**	**9,925**	**11,215**	**10,440**
Current	1,117	1,996	2,538	2,511
Non-current assets	8,116	7,929	8,677	7,929

Liabilities

Brasil Telecom S.A. has loans and financing contracted in local currency subject to interest rates linked to indexing units TJLP, UMBNDES, CDI (Rate DI - CETIP) and IGP-M. The inherent risk in these liabilities arises from possible variations in these rates. The Company has contracted derivative contracts to hedge 52% (78% in June 30, 2004) of the liabilities subject to the UMBNDES rate, using exchange rate swap contracts, considering the influence of the dollar on the interest rate (basket of currencies) of these liabilities. However, the other market rates are continually monitored to evaluate the need to contract derivatives to protect against the risk of volatility of these rates.

In addition to the loans and financing, the Company issued non-convertible private and public debentures. These liabilities were contracted at interest rates linked to the CDI, and the risk associated with this liability results of the possible increase of the rate.

The abovementioned liabilities at the balance sheet date are as follows:

	PARENT COMPANY AND CONSOLIDATED			
	09/30/04		06/30/04	
	Book Value	Market Value	Book Value	Market Value
LIABILITIES				
Debentures - CDI	1,876,592	1,874,193	1,788,521	1,788,651
Loans linked to TJLP	1,815,344	1,938,364	1,584,198	1,713,007
Loans linked to UMBNDES	243,948	252,762	195,151	221,702
Hedge on loans - UMBNDES	34,018	3,167	25,492	(8,029)
Loans linked to IGP-M	17,552	17,552	18,853	18,853
Other loans	16,844	16,843	18,108	18,108
TOTAL	**4,004,298**	**4,102,881**	**3,630,323**	**3,752,292**
Current	1,385,608	1,419,722	1,398,328	1,445,308

Long-term	2,618,690	2,683,159	2,231,995	2,306,984

Book value is equivalent to market values where the current contractual conditions for these types of financial instruments are similar to those in which they were originated.

d. Risk of Not Linking Monetary Restatement Indexes to Accounts Receivable

Loan and financing rates contracted by the Company are not linked to amounts of accounts receivable. Telephony tariff adjustments do not necessarily follow increases in local interest rates, which affect the company s debts. Consequently, a risk arises from this potential lapse of correlation.

e. Contingency Risks

Contingency risks are assessed according to loss hypotheses, as probable, possible or remote. Contingencies considered as probable risks are recorded as liabilities. Details of these risks are presented in Note 7.

f. Risks Related to Investments

The Company has investments, which are valued using the equity method and stated at acquisition cost. The investments valued by the equity method are presented in Note 23, for which no market value exists, as they are represented by non-listed corporations or private limited companies. Provisions are recorded for losses when the future cash flows expected from an investment lead to expectations of losses.

In this quarter, a provision was recorded with respect to the negative equity of VANT, which amounted to R$15,048 (R$17,033 in June 30, 2004).

The investments valued at cost are immaterial in relation to total assets. Their associated risks would not cause significant impacts to the Company.

g. Temporary Cash Investment Risks

The company has temporary cash investments in exclusive financial investment funds (FIFs), whose assets comprise federal securities based on floating, fixed and foreign exchange rates, from which some are directly indexed to the CDI, and others indirectly through forward contracts traded at the Futures and Commodities Exchange - BM&F. No significant credit risk is associated with these transactions. The Company maintains cash investments in the amount of R$1,683,463 (R$1,030,484 as of June 30, 2004). Income accrued to the balance sheet date is recorded in financial income and amounts to R$128,440 (R$103,373 in 2003). Amounts recognized in the consolidated financial statements are R$2,370,933 (R$1,898,343 as of June 30, 2004), related to investments, and R$134,203 (R$109,236 in 2003), related to income accrued.

6. BENEFITS TO EMPLOYEES

The benefits described in this note are offered to the employees of the Company and its wholly-owned subsidiary. These companies are better described together, and can be referred to as Brasil Telecom (group) and for the purpose of the pension scheme cited in this note, are also denominated Sponsor .

(a) Private Pension Plan

The Company sponsors private pension schemes related with retirement for its employees and assisted members, and in the case of the latter, medical assistance in some cases. These plans are managed by two foundations, which are Fundação de Seguridade Social (SISTEL), originated from certain companies of the former Telebrás System and Fundação BrTPREV (FBrTPREV) former Fundação dos Empregados da Companhia Riograndense de Telecomunicações (FCRT), which manages the benefit plans of CRT, a company merged on December 28, 2000.

The Company bylaws stipulate approval of the supplementary pension policy, and the joint liability attributed to the defined benefit plans is linked to the acts signed with the foundations, with the agreement of the Supplementary Pensions Department - SPC, where applicable to the specific plans.

The plans sponsored are valued by independent actuaries on the balance sheet date and, in the case of the defined benefit plans described in this explanatory note, immediate recognition of the actuarial gains and losses is adopted. Liabilities are provided for plans which show deficits. This measure has been applied since the 2001 financial year, when the regulations of CVM Ruling 371/00 were adopted. In cases that show positive actuarial situations, no assets are recorded due to the legal impossibility of reimbursing the surpluses.

The characteristics of the supplementary pension plans sponsored by the Company are described below.

FUNDAÇÃO SISTEL DE SEGURIDADE SOCIAL (SISTEL)

Plans

TCSPREV (Defined Contribution, Settled Benefit, Defined Benefit)
This defined contribution and settled benefit plan was introduced on February 28, 2000, with the adherence of around 80% of the employees at that time. On December 31, 2001, all the pension plans sponsored by the Company with SISTEL were merged, being exceptionally and provisionally approved by the Supplementary Pensions Department - SPC, due to the need for adjustments to the regulations. They were subsequently transformed into defined contribution groups with settled and defined benefits. The plans that were merged into the TCSPREV were the PBS-TCS, PBT-BrT, Convênio de Administração BrT, and the Termo de Relação Contratual Atípica, the conditions established in the original plans being maintained. In March 2003, this plan was suspended to the employees who want to be included in the supplementary pension plans sponsored by the Company. TCSPREV currently attends to around 58.0% of the staff.

PBS-A (Defined Benefit)
Maintained jointly with other sponsors linked to the provision of telecommunications services and destined for participants that had the status of beneficiaries on January 31, 2000.

PAMA - Health Care Plan for Retired Employees (Defined Contribution)
Maintained jointly with other sponsors linked to the provision of telecommunications services and destined for participants that had the status of beneficiaries on January 31, 2000, and also for the beneficiaries of the PBS-TCS Group, incorporated into the TCSPREV on December 31, 2001. According to a legal/actuarial appraisal, the Company s liability is exclusively limited to future contributions.

PAMEC-BrT (Health-care Plan for Supplementary Pension Beneficiaries)
Medical assistance for retirees and pensioners linked with the PBT-BrT Group, which was incorporated into the TCSPREV on December 31, 2001.

Contributions Established for the Plans

TCSPREV
Contributions to this plan were maintained on the same basis as the original plans incorporated in 2001 for each group of participants, and were established based on actuarial studies prepared by independent actuaries according to regulations in force in Brazil, using the capitalization system to determine the costs. Currently contributions are made by the participants and the sponsor only for the internal groups PBS-TCS (defined benefit) and TCSPREV. In the TCSPREV group, the contributions are credited in individual accounts of each participant, equally by the employee and the Company, and the basic contribution percentages vary between 3% and 8% of the participant s salary, according to age. Participants have the option to contribute voluntarily or sporadically to the plan above the basic contribution, but without equal payments from the Company. In the case of the PBS-TCS group, the sponsor s contribution in the quarter was 12% of the payroll of the participants; whilst the employees contribution varies according to the age, service time and salary. An entry fee may also be payable depending on the age of entering the plan. The sponsors are responsible for the cost of all administrative expenses and risk benefits. To the quarter, contributions by the sponsor to the TCSPREV group represented on average 6.95% of the payroll of the plan participants. To the employees, the average was 6.26%.

The Company s contributions were R$10,847 in the quarter (R$10,768 in 2003).

PBS-A
Contributions may occur in case of accumulated deficit. As of December 31, 2003, the plan presented surplus.

PAMA
This plan is sponsored with contributions of 1.5% on payroll of active participants linked to PBS plans, segregated and sponsored by several SISTEL sponsors. In the case of Brasil Telecom, the PBS-TCS was incorporated into the TCSPREV plan on December 31, 2001, and became an internal group of the plan.

The company s contributions for this plan, that are exclusively the responsibility of the sponsors, were R$86 in the quarter (R$90 in 2003).

PAMEC-BrT
Contributions for this plan were fully paid in July 1998 through a single payment. New contributions will be limited to the future necessity to cover expenses, if that occurs.

FUNDAÇÃO BrTPREV

The main purpose of the Company sponsoring BrTPREV is to maintain the supplementary retirement, pension and other provisions in addition to those provided by the official social security system to participants. The actuarial system for determining the plan s cost and contributions is collective capitalization, valued annually by an independent actuary.

Plans

BrTPREV
Defined contribution and settled benefits in October 2002 plan to provide supplementary social security benefits in addition to those of the official social security. On March 2003, this plan was provided to the employees from all branches of the Company and to the employees of the subsidiaries, who wanted to be benefited by the supplementary pension plans sponsored. Currently, this plan attends approximately 36% of the staff.

Fundador - Brasil Telecom and Alternative - Brasil Telecom
Defined contribution and settled benefits plan to provide supplementary social security benefits in addition to those of the official social security, now closed to the entry of new participants. Currently, this plan attends approximately 1% of the staff.

Contributions Established for the Plans

BrTPREV
Contributions to this plan are established based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil, using the capitalization system to determine the costs. Contributions are credited in individual accounts of each participant, the employee s and Company s contributions being equal, the basic percentage contribution varying between 3% and 8% of the participation salary, according to the age. Participants have the option to contribute voluntarily or sporadically to the plan above the basic contribution, but without equal payments from the Company. The sponsor is responsible for the administrative expenses on the basic contributions from employees and normal contributions of the Company and risk benefits. In the quarter contributions by the sponsor represented on average 6.21% of the payroll of the plan participants, whilst the average employee contribution was 5.41%.

In the quarter, the Company s contributions amounted to R$4,140 (R$1,959 in 2003).

FUNDADOR - BRASIL TELECOM AND ALTERNATIVE-BRASIL TELECOM
The regular contribution by the sponsor in the quarter was an average of 2.22% on the payroll of plan participants, who contributed at variable rates according to age, service time and salary; the average rate was 2.18%. With the Alternative-Brasil Telecom, the participants also pay an entry fee depending on the age of entering the plan.

The usual contributions of the Company in the quarter amounted to R$13 (R$137 in 2003).

The technical reserve corresponding to the current value of the Company s supplementary contribution, as a result of the actuarial deficit of the plans managed by FCRT, must be amortized, due to the actuarial deficit of the plans, within the maximum established period of 20 years as from January 2002, according to Circular 66/SPC/GAB/COA from the Supplementary Pensions Department dated January 25, 2002. Of the maximum period established, 17 years and six months still remain for complete settlement. The amortizing contributions until this quarter amounted to R$68,386 (R$58,972 in 2003).

(b) Stock option plan for management and employees

The Extraordinary Shareholders Meeting held on April 28, 2000, approved the general plan to grant stock purchase options to officers and employees of the Company and its subsidiaries. The plan authorizes a maximum limit of 10% of the shares of each kind of Company stock. Shares derived from exercising options guarantee the beneficiaries the same rights granted to other Company shareholders. The administration of this plan was entrusted to a management committee appointed by the Board of Directors, which decided only to grant preferred stock options. The plan is divided into two separate programs:

Program A

This program is granted as an extension of the performance objectives of the Company established by the Board of Directors for a five-year period. Up to June 30, 2004, no stock had been granted.

Program B

The price of exercising is established by the management committee based on the market price of 1000 shares at the date of the grant of option and will be monetarily restated by the IGP-M between the date of signing the contracts and the payment date.

The right to exercise the option is given in the following way and within the following periods:

	First Grant		Second Grant	
	From	**End of period**	**From**	**End of period**
33%	01/01/04	12/31/08	12/19/05	12/31/10
33%	01/01/05	12/31/08	12/19/06	12/31/10
34%	01/01/06	12/31/08	12/19/07	12/31/10

The acquisition periods can be anticipated as a result of the occurrence of events or special conditions established in the option contract.

The information related with the general plan to grant stock options is summarized below:

	Preferred stock options (thousand)	Average exercise price R$
Balance as of June 30, 2004	907,469	11,73
Balance as of September 30, 2004	907,469	11,73

There has been no grant of options for purchase of stocks exercised until the end of this quarter and the representativeness of the options balance in relation to the total of outstanding preferred shares is 0.31% (0.31% in June 30, 2004).

Considering the hypothesis that the options will be exercised integrally, the opportunity cost of the respective premiums, calculated based on the Black & Scholes method, would be R$933 (R$611 in 2003).

(c) Other Benefits to Employees

Other benefits are granted to employees, such as: health care/dental care, meal allowance, group life insurance, occupational accident allowance, sickness allowance, transportation allowance, and others.

7. PROVISIONS FOR CONTINGENCIES

The Company and its subsidiaries periodically assess their contingency risks, and also review their lawsuits taking into consideration the legal, economic, and accounting aspects. The assessment of these risks aims to classifying them according to the chances of unfavorable outcome among the alternatives of probable, possible or remote, taking into account, as applicable, the opinion of the legal counselors.

For those contingencies, which the risks are classified as probable, provisions are recognized. Contingencies classified as possible or remote are discussed in this note. In certain situations, due to legal requirements or precautionary measures, judicial deposits are made to guarantee the continuity of the cases in litigation. These lawsuits are in progress in various courts, including administrative, lower, and higher courts.

Labor Claims

The provision for labor claims includes an estimate by the Company s management, supported by the opinion of its legal counselors, of the probable losses related to lawsuits filed by former employees of the Company, and of service providers.

Tax Suits

The provision for tax contingencies refers principally to matters related to tax collections due to differences in interpretation of the tax legislation by Brasil Telecom (Group) counselors and the tax authorities.

Civil Suits

The provision for civil contingencies refers to cases related to contractual adjustments arising from Federal Government economic plans, and other cases related to community telephony plans.

Classification by Degree of Risk

Contingencies with a Probable Risk

Contingencies classified as having a probable risk of loss, for which provisions are recorded under liabilities, have the following balances:

	PARENT COMPANY		CONSOLIDATED	
NATURE	**09/30/04**	**06/30/04**	**09/30/04**	**06/30/04**
Labor	386,769	375,419	387,498	376,123
Tax	64,164	63,244	100,337	98,619
Civil	171,115	156,598	173,472	158,951
TOTAL	**622,048**	**595,261**	**661,307**	**633,693**
Current	276,592	285,693	309,069	317,452
Non-current	345,456	309,568	352,238	316,241

Labor

In the current fiscal year, a decrease in the provision for labor contingencies in the amount of R$37,328 was verified until the third quarter (R$36,599, consolidated). This variance is caused by the recognition of monetary restatements and effects of the reassessment of contingent risks that determine the additional recognition of a provision in the amount of R$117,423 (R$117,935, consolidated), by new additions amounting to R$20,694 and by payments which amounted to R$175,445. The consolidated provision was also increased by the amount of R$217 due to labor contingencies of VANT and MetroRED.

The main objects that affect the provisions for labor claims are the following:

(i) Additional Remuneration - related to the claim for payment of additional remuneration for hazardous activities, based on Law nr 7.369/85, regulated by Decree nr 93.412/86, due to the supposed risk of contact by the employee with the electric power system;

(ii) Salary Differences and Consequences - related, mainly, to requests for salary increases due to supposedly unfulfilled union negotiations. They are related to the repercussion of the salary increase supposedly due on the others sums calculated based on the employees salaries;

(iii) Career Plan - related to the request for application of the career and salaries plan for employees of the Santa Catarina Branch (formerly Telesc), with promotions for seniority and merit, supposedly not granted by the former Telesc; and

(iv) Joint Responsibility - related to the request to ascribe responsibility to the Company, made by outsourced personnel, due to supposed nonobservance of their labor rights by their real employers.

Tax

In the current fiscal year, there was a decrease of R$227 (R$34,367, consolidated), represented by R$8,549 (R$12,843, consolidated) of reduction as a result of reassessment of contingent risks, R$9,452 (R$10,759, consolidated) of increase due to monetary restatements and new additions, and payments amounting to R$1,130. Additionally, there was also an increase of R$35,581 as a result of the acquisition in May 2004 of MetroRED and Vant.

The main lawsuits provided for are as follows:

(i) Social Security - Related to the non-collection of social security education allowance;

(ii) Federal evenue Department - Incorrect compensation of tax losses;

(iii) State Revenue Department - Non-collection of differential in rate of ICMS; and

(iv) CPMF - Non-collection of the contribution on financial activities.

Civil

The decrease in the current fiscal year up the end of quarter in the amount of R$36,732 (R$35,206 for Consolidated), is represented by reassessments of the contingency risks, which were reduced by recognition of monetary restatement, which resulted in a net decrease of R$29,094 (R$27,568 for Consolidated) in the provision (R$20,463 for Consolidated) and by payments totaling R$28,101.

The lawsuits provided for are the following:

(i) Review of contractual conditions - Lawsuit where a company which, supplies equipment filed legal action against the Company, asking for a review of contractual conditions due to economic stabilization plans;

(ii)

Contracts of Financial Participation - It has been signed with TJ/RS the position related to the incorrect procedure previously adopted by the former CRT in processes related to the application of a rule enacted by the Ministry of the Communications has been agreed to in the Court of Appeals of Rio Grande do Sul. Such cases are in various phases: First instance, Court of Appeals and Higher Court of Appeals; and

(iii) Other lawsuits - related to various ongoing lawsuits such as indemnification for pain and suffering and material damages to consumers, indemnification for contractual rescission, indemnification for accidents, as well as lawsuits that are in Special Civil Courts whose claims, separately, do not exceed forty minimum salaries.

Contingencies with a Possible Risk

The position of contingencies with degree of risk considered to be possible, and therefore not recorded in the accounts, is the following:

	PARENT COMPANY		CONSOLIDATED	
NATURE	**09/30/04**	**06/30/04**	**09/30/04**	**06/30/04**
Labor	652,096	629,179	653,952	629,405
Tax	1,173,701	1,053,339	1,187,972	1,059,101
Civil	890,192	821,311	890,337	821,314
Total	**2,715,989**	**2,503,829**	**2,732,261**	**2,509,820**

Labor

The main objects that comprise the possible losses of a labor nature are related to additional remuneration for hazardous activities, promotions and joint responsibility, the evaluation of which processes by the legal assessors resulted in a level of risk of loss evaluated only as possible. In addition to the subjects cited, the request for remunerative consideration for hours of work supposedly exceeding the normal agreed workload of hours also contributed to the amount mentioned.

Tax

The main lawsuits considered as possible loss are presented as follows:

(i) ICMS - On international calls;

(ii) ICMS - Differential of rate in interstate acquisitions;

(iii) ICMS - Exploitation of credits related to the acquisition of fixed assets for use and consumption;

(iv) ISS (Service Tax) - Not collected and/or under-collected;

(v) IRPJ and CSLL (Income and Social Contribution Taxes) - Monetary variation on credits overpaid in 1997 and 1998;

(vi) INSS (Social Security) - Related to the Bresser and Summer Plans, as well as others social security and SAT payments;

vii) COFINS - REPASS; and

(viii) Withholding tax (IRRF) - Operations related to hedge for covering debts.

Civil

The main lawsuits are presented as follows:

(i) Repayments resulting from Community Telephony Program lawsuits (PCT) - the plaintiffs intend to pay the compensations related to the contracts resulting from the Community Telephony Program. Such proceedings are encountered in various phases: First instance, Court of Appeals and Higher Court of Appeals;

(ii) Lawsuits of a consumerist nature;

(iii) Contractual - Lawsuits related to the claim for a percentage resulting from the Real Plan, to be applied in a contract for rendering services, review of conversion of installments in URV and later in reais, related to the supply of equipment and rendering of services; and

(iv) Attendance for customers points - Public civil lawsuits arising from the closing of customer attendance points.

Contingencies with a Remote Risk

In addition to the claims mentioned, there are also contingencies considered to be of a remote risk amounting to R$1,406,721 (R$1,311,217 on June 30, 2004) for the Parent Company and R$1,407,701 (R$1,311,492 on June 30, 2004) for the consolidated.

Guarantees

The company has guarantees signed with financial institutions, as complementary guarantees for judicial proceedings in provisional execution, in the amount of R$213,902, (R$192,260 on June 30, 2004). A major part of these contracts, representing 52%, has terms ending during the next twelve months and the rest for indeterminate periods. The remuneration of these contracts varies from 0.75% a.a. to 4.00% a.a., representing an average rate of 1.06% p.a.

The judicial deposits related to contingencies and contested taxes (suspended liability) are shown in Note 21.

8. SHAREHOLDERS EQUITY

a. Capital

The Company is authorized to increase its capital by means of a resolution of the Board of Directors to a total limit of 560,000,000,000 (five hundred and sixty billion) common or preferred shares, observing the legal limit of 2/3 (two thirds) for the issue of preferred shares without voting rights.

By means of a resolution of the General Shareholders' Meeting or the Board of Directors, the Company s capital can be increased by the capitalization of retained earnings or prior reserves allocated by the General Shareholders Meeting. Under these conditions, the capitalization can be effected without modifying the number of shares.

The capital is represented by common and preferred stock, with no par value, and it is not mandatory to maintain the proportion between the shares in the case of capital increases.

By means of a resolution of the General Shareholders Meeting or the Board of Directors, preference rights can be excluded for the issue of shares, subscription bonuses or debentures convertible into shares in the cases stipulated in article 172 of Corporation Law.

The preferred shares do not have voting rights, except in the cases specified in the paragraphs 1 to 3 of art, 12 of the bylaws, but are assured priority in receiving the minimum non-cumulative dividend of 6% per annum, calculated on the amount resulting from dividing the capital by the total number of Company shares, or 3% per annum calculated on the amount resulting from dividing the net book shareholders equity by the total number of Company shares, whichever is greater.

Subscribed and paid-up capital as of the balance sheet date is R$3,401,245 (R$3,401,245 as of June 30, 2004) represented by shares without par value as follows:

TYPE OF SHARES	**Total of Shares**		**Shares held in Treasury**		**Outstanding Shares**	
	09/30/04	**06/30/04**	**09/30/04**	**06/30/04**	**09/30/04**	**06/30/04**
Common	249,597,050	249,597,050	-	-	249,597,050	249,597,050
Preferred	300,118,295	300,118,295	5,027,282	4,848,482	295,091,013	295,269,813
TOTAL	**549,715,345**	**549,715,345**	**5,027,282**	**4,848,482**	**544,688,063**	**544,866,863**

	09/30/04	**06/30/04**
BOOK VALUE PER THOUSAND OF OUTSTANDING SHARES (R$)	**12,30**	**12,10**

b. Treasury stock

In the calculation of the book value per thousand shares, were deducted the preferred shares held in treasury. These shares held in treasury are derived from two separate events:

Merger

The Company is holding in its treasury preferred stock acquired in the first half of 1998 by the former Companhia Riograndense de Telecomunicações - CRT, the company that was merged by Brasil Telecom S.A. at the and of 2000. Since the merger, the company has only placed shares in circulation to comply with judicial rulings as a result of ownership claims from the original subscribers of the merged company. The amount originally paid in this case is considered as a cost of replacement, according to the control made by the Company, considering the outgoings for the older acquisitions to the more recent.

The average acquisition cost originally represented, at CRT, an amount of R$1,24 per share. With the swap ratio of the stock as a result of the merger process, each CRT share was swapped for 48.56495196 shares of Brasil Telecom S.A., resulting in an average cost of R$0.026 for each treasury share.

The movements of treasury stock derived from the merged company were the following:

	09/30/04		06/30/04	
	Preferred shares (thousands)	**Amount**	**Preferred shares (thousands)**	**Amount**
Opening balance in the quarter	1,282	30	450,085	10,432
Number of shares replaced in circulation	-	-	(448,803)	10,402
Closing balance in the quarter	1,282	30	1,282	30

The retained earnings account represents the origin of the funds invested in acquiring the stock held in treasury.

Stock Repurchase Program - Relevant Fact of September 13, 2004

The Company s Board of Directors approved, on the abovementioned date, the proposals to repurchase preferred stock issued by the Company, for holding in treasury or cancellation or subsequent sale, under the following terms and conditions: (i) the retained earnings account represented the origin of the funds invested in purchasing the stock; (ii) the authorized quantity for the repurchase of Company stock for holding in treasury was limited to 10% of preferred shares outstanding in the market; and (iii) the period determined for the acquisition was 365 days, in accordance with CVM Instruction nr 390/03.

The repurchase of preferred shares issued by the Company for holding in treasury, is authorized up to the limit of 18,078,192,282 shares of this nature. In order to reach this limit, the Company could acquire the quantity of 11,747,081,779 shares.

The quantity of shares held in treasury arising from the programs for repurchase of shares was the following:

	09/30/04		06/30/04	
	Preferred shares (thousands)	**Amount**	**Preferred shares (thousands)**	**Amount**
Opening balance in the quarter	4,847,200	54,870	4,847,200	54,870
Shares acquired	178,800	2,000	-	-
Balance of the quarter	5,026,000	56,870	4,847,200	54,870

Unit cost of repurchased shares (R$)	**09/30/04**	**06/30/04**
Average	11,32	11,32
Minimum	10,31	10,31
Maximum	13,80	13,80

The unit cost of acquisition considers the totality of stock repurchase program.

There were no disposals of these purchased preferred shares up to the end of the quarter.

Market value of treasury shares

The market value of treasury shares, arising from the merger of CRT and the repurchase programs, at the market quotation at the balance sheet date was the following:

	09/30/04	**06/30/04**
Number of preferred shares in treasury (thousand of shares)	5,027,282	4,848,482
Quotation per lot of thousand shares at BOVESPA (R$)	11,37	11,35

Market value	**57,160**	**55,030**

The Company maintains the balance of treasury stock in a separate account. For presentation purposes, the value of the treasury stock is deducted from the reserves that gave rise to it, and is presented as follows:

	CAPITAL RESERVES		RETAINED EARNINGS	
	09/30/04	**06/30/04**	**09/30/04**	**06/30/04**
Reserves (including those that originated the treasury stock)	1,551,952	1,551,675	1,528,617	1,419,514
Treasury stock	(56,870)	(54,870)	(30)	(30)
BALANCE OF RESERVES NET OF TREASURY STOCK	**1,495,082**	**1,496,805**	**1,528,587**	**1,419,484**

c. Capital Reserves

Capital reserves are recognized in accordance with the following practices:

<u>Reserve for Premium on Subscription of Shares</u>: results from the difference between the amount paid on subscription, and the portion allocated to capital.

<u>Special Goodwill Reserve arising on Merger</u>: represents the net value of the contra entry of the goodwill recorded in deferred charges as provided by CVM Instructions 319/99 and 320/99. When the corresponding tax credits are used, the reserve is capitalized, annually, in the name of the controlling shareholder, observing the preferred rights of the other shareholders.

<u>Reserve for Donations and Subsidies for Investments</u>: registered as a result of donations and subsidies received, the contra entry for which represents an asset received by the Company.

<u>Reserve for Special Monetary Restatement as per Law 8.200/91</u>: registered as a result of special monetary restatement adjustments to compensate the distortions in the monetary restatement indices prior to 1991.

<u>Other Capital Reserves</u>: formed by the contra entry of the interest on work in progress up to December 31, 1998 and funds invested in income tax incentives.

d. Profit Reserves

The profit reserves are recognized in accordance with the following practices:

<u>Legal Reserve:</u> allocation of five percent of the annual net income, up to twenty percent of paid-up capital or thirty percent of capital plus capital reserves. The Legal Reserve is only used to increase capital or to offset losses.

<u>Retained Earnings:</u> Comprises the remaining balance of net income, adjusted according to the terms of article 202 of Law nr 6.404/76, or by the recording of adjustments from prior years, if applicable.

e. Dividends and Interest on Shareholders Equity

The dividends are calculated in accordance with the Company bylaws and the corporate law. Mandatory minimum dividends are calculated in accordance with article 202 of Law nr 6.404/76, and the preferred or priority dividends are calculated in accordance with the Company bylaws. As a result of a resolution by the Board of Directors, the Company may pay or credit, as dividends, Interest on Shareholders Equity (JSCP), under the terms of article 9, paragraph 7, of Law nr 9.249, dated December 26, 1995. The interests paid or credited will be offset against the minimum statutory dividend.

The JSCP credited to the shareholders and that will be allocated to dividends, net of income tax, as part of the proposed allocation of income for the current year that will be closed by the end of 2004, to be submitted for approval by the general shareholder s meeting, are as follows:

	09/30/04	**09/30/03**
INTERESTS ON SHAREHOLDERS EQUITY - JSCP CREDITED	**238,100**	**246,200**
Common share	110,139	112,957
Preferred share	127,961	133,243
WITHHOLDING TAX (IRRF)	**(35,715)**	**(36,930)**
NET JSCP	**202,385**	**209,270**

9. NET OPERATING REVENUE FROM TELECOMMUNICATION SERVICES

	PARENT COMPANY		CONSOLIDATED	
	30/09/04	**30/09/03**	**30/09/04**	**30/09/03**
LOCAL SERVICE	**5,075,983**	**4,806,871**	**5,075,873**	**4,806,871**
Connection fees	26,186	26,657	26,186	26,657
Basic subscription	2,277,825	2,112,210	2,277,825	2,112,210
Measured service charges	1,072,543	1,048,465	1,072,543	1,048,465
Fixed to mobile calls - VC1	1,627,524	1,537,014	1,627,524	1,537,014
Rent	1,215	1,276	1,215	1,276
Other	70,580	81,249	70,580	81,249
LONG DISTANCE SERVICES	**1,897,002**	**1,458,496**	**1,897,002**	**1,458,496**
Inter-Sectorial Fixed	814,697	806,682	814,697	806,682
Intra-Regional Fixed (Inter-Sectorial)	304,101	266,338	304,101	266,338
Fixed Inter Regional	140,500	-	140,500	-
Fixed to mobile calls - VC2 and VC3	617,737	385,058	617,737	385,058
Fixed-fixed international	19,480	418	19,480	418
Fixed-mobile international	485	-	485	-
Mobile-mobile international	2	-	2	-
INTERCONNECTION (USE OF THE NETWORK)	**553,164**	**619,574**	**553,164**	**619,574**
Fixed-Fixed	356,274	455,860	356,274	455,860
Mobile-Fixed	196,890	163,714	196,890	163,714
LEASE OF MEANS	**172,455**	**154,596**	**172,455**	**154,596**
PUBLIC TELEPHONE SERVICE	**355,594**	**279,141**	**355,594**	**279,141**
DATA TRANSMISSION	**752,791**	**564,751**	**759,233**	**545,266**
SUPPLEMENTARY, INTELLIGENT NETWORK AND ADVANCED SERVICES	**321,143**	**262,837**	**320,374**	**262,787**
OTHER SERVICES OF THE MAIN ACTIVITY	**14,552**	**15,472**	**104,182**	**31,526**
OTHER	**23,537**	**19,329**	**23,543**	**19,329**
GROSS OPERATING REVENUE	**9,166,111**	**8,181,067**	**9,261,420**	**8,177,586**
TAXES ON GROSS REVENUE	(2,528,535)	(2,236,595)	(2,570,058)	(2,251,213)
OTHER DEDUCTIONS FROM GROSS REVENUE	(85,109)	(83,455)	(92,576)	(84,369)
NET OPERATING REVENUE	**6,552,467**	**5,861,017**	**6,598,786**	**5,842,004**

10. COST OF SERVICES RENDERED

The costs incurred in the generation of services rendered are as follows:

	PARENT COMPANY		CONSOLIDATED	
	30/09/04	**30/09/03**	**30/09/04**	**30/09/03**
PERSONNEL	(81,892)	(86,058)	(87,927)	(87,364)
MATERIALS	(66,761)	(60,996)	(66,809)	